

REPORT BY THE AUDITOR GENERAL OF CALIFORNIA

IMPROVEMENTS WARRANTED IN THE CALIFORNIA DEPARTMENT OF AGING'S ADMINISTRATION OF PROGRAMS FOR THE ELDERLY

Our review of the California Department of Aging's (CDA) administration of programs for the elderly disclosed that it has not maximized the use of federal funds. Specifically, the department has not used approximately \$5.7 million in social service and nutrition funds accumulated since fiscal year 1973-74. The department has also returned \$539,939 in unused fiscal year 1978-79 senior employment funds to the Federal Government. Consequently, over one million meals could have been served to eligible senior citizens with the unused nutrition funds accumulated since fiscal year 1973-74. Further, approximately 110 seniors could have been employed with the fiscal year 1978-79 senior employment funds that were returned unused to the Federal Government.

Furthermore, the CDA has not adequately assisted local agencies or effectively controlled their operations. Thus, the department cannot ensure that its programs are efficiently operated and controlled at the local level.

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

014.2

IMPROVEMENTS WARRANTED IN THE
CALIFORNIA DEPARTMENT OF AGING'S
ADMINISTRATION OF PROGRAMS FOR THE ELDERLY

April 1981



California Legislature

Joint Legislative Audit Committee

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014.2

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the
Auditor General's report concerning the California Department
of Aging's administration of programs for the elderly.

Respectfully submitted,

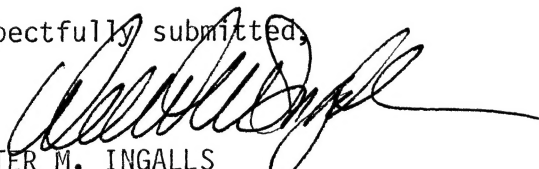

WALTER M. INGALLS
Chairman, Joint Legislative
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TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	1
INTRODUCTION	5
AUDIT RESULTS	
THE CALIFORNIA DEPARTMENT OF AGING HAS NOT MAXIMIZED THE USE OF FEDERAL FUNDS	11
RECOMMENDATION	34
THE CALIFORNIA DEPARTMENT OF AGING HAS NOT ADEQUATELY ASSISTED LOCAL AGENCIES OR EFFECTIVELY CONTROLLED THEIR OPERATIONS	37
RECOMMENDATION	64
OTHER PERTINENT INFORMATION	67
AGENCY RESPONSE TO THE AUDITOR GENERAL'S REPORT	
Director, California Department of Aging	72
APPENDICES	
APPENDIX A -- CALIFORNIA AREA AGENCIES ON AGING	A-1
APPENDIX B -- COMPENDIUM OF AUDIT FINDINGS ADDRESSING THE CALIFORNIA DEPARTMENT OF AGING	B-1

SUMMARY

The California Department of Aging administers funds allocated to the State under the federal Older Americans Act of 1965 as amended. The department is also responsible for supervising nutrition and social service programs for the elderly. During fiscal year 1980-81, the estimated budget for the department is approximately \$79.5 million.

We found that, as of February 13, 1981, the department has not used approximately \$5.7 million in social service and nutrition funds accumulated since fiscal year 1973-74. In addition, the department has returned \$539,939 in unused fiscal year 1978-79 senior employment funds to the Federal Government.

This inefficient management of federal funds has resulted from weaknesses in the department's administration and from uncertainties in federal funding. For instance, the department has not promptly closed expired contracts with local agencies or adjusted its records after these closeouts to reflect available funds. Neither has the department detailed important transactions in its accounting records or monitored

the expenditures of local agencies. The department's difficulty in fully utilizing funds also results from uncertainties regarding the amount of the federal allotment as well as unclear federal guidelines for allocating funds to local agencies that have underutilized funds.

As a result of these weaknesses, California's elderly population has not fully benefited from both nutrition and social services. Approximately 1.2 million meals could have been served with the unused nutrition funds accumulated by the department since fiscal year 1973-74. Further, approximately 110 seniors could have been employed with the senior employment funds returned unused to the Federal Government in fiscal year 1978-79.

In the department's response to our audit, the department indicated that certain actions are being taken to correct these deficiencies. Specifically, the department on March 1, 1981 implemented a new accounting system which is expected to provide management sufficient detail for decision making. Further, the department has obtained temporary assistance to close all outstanding contracts.

Our review also indicated that the department has not adequately assisted local agencies or effectively controlled their operations. Specifically, the department has not

processed local agencies' requests for funds in a timely manner, supplied technical assistance and written policy, developed a needs assessment policy, or ensured that area agencies are properly operated. Consequently, the department cannot ensure the Legislature and the Federal Government that its programs for the elderly are efficiently operated and controlled or that seniors are effectively served.

The department responded that measures are being taken to ensure that area agencies are being properly operated. For example, a program manual, including federal and state regulations and department policy, will be distributed to area agencies by May 1, 1981. In addition, roles and responsibilities of staff providing technical assistance to area agencies are being clarified. The department further responded that staff responsible for processing requests for funds have been asked to expedite these funds. Finally, procedures have been instituted to correct problems in the sanction process.

In view of our findings, we recommend that the California Department of Aging immediately identify and redirect the Older Americans Act funds unused since fiscal year 1973-74 to local agencies. Also, it should close contracts and establish complete accounting records to readily identify funds

available for redirection. The department should then strengthen its monitoring and control of federal funds by comparing budgeted with actual expenditures each month and by instituting procedures to redirect funds from underutilized contracts.

To ensure that the department adequately assists and controls local agencies, we further recommend that it assign priority to tasks which expedite the processing of requests for funds, complete a manual for both local agency and department use, routinely update this manual, and develop and implement a needs assessment policy for the fiscal year 1982-83 planning cycle. Further, the department should evaluate the 33 Area Agencies on Aging annually and report the results on a timely basis, develop and institute an audit program designed to review all aspects of local agency operations, and review instances of local agencies' noncompliance before issuing sanctions. We also recommend that the department report to the Legislature in 60 days concerning the implementation of these recommendations.

INTRODUCTION

In response to a request by the Joint Legislative Audit Committee and under the authority vested in the Auditor General by Government Code Sections 10527 and 10528, we have reviewed the California Department of Aging's overall administration of programs for the elderly. This report focuses on the department's basic management responsibilities--its administration of funds and its supervision of nutrition and social service programs. This is the second report addressing the department's management of programs for the elderly.*

Background

In this section we describe how the California Department of Aging administers its programs. We also explain the department's organizational structure and detail program funding.

* The Auditor General's most recent report on this area, entitled Status of the California Department of Aging's Funding, Closing of Contracts, and Management Information System, Report No. P-014.1, was issued in October 1980.

State statutes have designated the California Department of Aging as the single state agency for administering funds which are allocated to the State under the federal Older Americans Act of 1965 as amended. As the state unit on aging, the department is responsible for planning, coordinating, and monitoring programs to stimulate the development of a statewide network of comprehensive services for persons 60 years of age or older.

The department's responsibilities are to provide advocacy for the elderly in state government and to supervise and administer programs funded under Title IIIIB, Title IIIC, Title IVA, and Title V of the Older Americans Act. Title IIIIB of that act provides for the development, delivery, and coordination of a system of supportive services to the elderly. These service systems include transportation, shopping assistance, outreach, legal assistance, recreation, and educational programs. The purpose of Title IIIC of the Older Americans Act is to provide senior citizens with nutritionally sound, inexpensive meals and nutrition-related services. Meals are primarily served at congregate dining locations, but some are delivered to homes of the elderly.

The department also administers Title IVA of the act, which offers training courses for local providers of elderly services. Lastly, the department administers Title V of the act which establishes a senior community employment program. Funds are provided by the Department of Labor to subsidize part-time employment in community service activities for low-income persons 55 years of age and older. The program's intent is to enable these older persons to earn additional income, to reestablish ties with the community, and to receive training to improve their employment prospects.

The California Department of Aging administers and delivers programs for the elderly through a statewide network. For administrative purposes, the State is divided into 33 planning and service areas. Each of these areas is served by an Area Agency on Aging (AAA), which may be a county agency or a nonprofit organization.* The AAAs are responsible for ensuring that a wide array of nutrition and social services are available to the elderly within these planning and service areas. The AAAs are also responsible for regularly monitoring and evaluating the service providers within their respective planning and service areas to ensure compliance with regulations.

* The department consolidated all nutrition and social service programs under the area agencies in October 1980.

To carry out these responsibilities, the department is divided into three divisions: the Administration and Finance; the Community Programs; and the Planning, Evaluation, and Research Divisions. The Administration and Finance Division provides fiscal, personnel, management and data systems, and administrative services. The Community Programs Division processes grant applications, provides technical assistance, and monitors local agencies. Finally, the Planning, Evaluation, and Research Division is responsible for developing the State Plan on Aging, interagency coordination agreements, and methods for establishing priorities for services. This division also develops departmental policy. Additionally, the State and Federal Coordination Unit facilitates service coordination between the various state and federal agencies responsible for providing services to the elderly. The Special Services Unit oversees training, audits, advocacy assistance, information and referral, and legal services development.

Federal funds finance approximately 93 percent of the department's proposed budget for fiscal year 1981-82. The following table summarizes the department's total budgeted funds for fiscal years 1979-80 through 1981-82.

TABLE 1

DEPARTMENT OF AGING'S TOTAL FUNDS
1979-80 THROUGH 1981-82

<u>Source of Funds</u>	<u>Actual 1979-80</u>	<u>Estimated 1980-81</u>	<u>Proposed 1981-82</u>
Federal	\$65,183,000	\$74,685,000	\$73,464,000
State	<u>1,916,000</u>	<u>4,861,000</u>	<u>5,323,000</u>
Total	<u>\$67,099,000</u>	<u>\$79,546,000</u>	<u>\$78,787,000</u>

Source: 1981-82 Governor's Budget

Audit Scope and Methodology

This report specifically addresses the department's overall administration of programs for the elderly. We evaluated the department's performance in carrying out its basic management responsibilities. In conducting this review, we interviewed staff from the department and from the federal Department of Health and Human Services. We also examined the department's contract and accounting records to determine the status of federal funds. Finally, we analyzed the department's policies and procedures for administering programs for the elderly.

To determine whether the department is properly administering programs for the elderly, we reviewed selected area agencies. Our selection of agencies included large and

small AAAs in rural and urban locations, county and private nonprofit organizations, and newly-designated and established area agencies. We visited providers of services within these AAAs.

Specifically, we conducted telephone surveys of 15 Area Agencies on Aging. We also visited the following eight area agencies:

- Area 3, including Butte, Colusa, Glenn, Plumas, and Tehama Counties;
- Area 8, San Mateo County;
- Area 10, Santa Clara County;
- Area 13, Santa Cruz and San Benito Counties;
- Area 14, Fresno and Madera Counties;
- Area 20, San Bernardino County;
- Area 21, Riverside County; and
- Area 30, Stanislaus County.

The geographical boundaries of all 33 area agencies are depicted in the map presented in Appendix A.

AUDIT RESULTS

THE CALIFORNIA DEPARTMENT OF AGING HAS NOT MAXIMIZED THE USE OF FEDERAL FUNDS

According to federal instructions clarifying the use of Older Americans Act monies, states must spend funds as soon as possible after they have been appropriated by Congress. As of February 13, 1981, the California Department of Aging's records indicated that approximately \$5.7 million in social service and nutrition funds accumulated since fiscal year 1973-74 have not been used. Further, these funds are not currently committed to local agencies. And the department has also returned \$539,939 in unused senior employment funds for fiscal year 1978-79 to the Federal Government.

This inefficient management of federal funds has resulted from weaknesses in the department's administration and from uncertainties in federal funding. First, the department has not promptly closed expired contracts with local agencies, a process through which the department determines the amount of unexpended federal funds. Neither has the department promptly adjusted its records after closing contracts to reflect these funds. Likewise, the department has not detailed important

transactions with the Federal Government or the local agencies in its accounting records. The department also has not monitored local agencies' expenditures. These weaknesses prevent the department from identifying funds available and redirecting those funds to needy agencies. Other problems relate to uncertainties in the federal allotment of funds. The amount of the federal allotment to California is not announced until several months after the award of contracts to local agencies. Further, the federal regulations governing who should receive the allocations do not address underutilization of funds by local agencies.

Because of these weaknesses, California's elderly population has not fully benefited from both nutrition and social services. For example, approximately 1.2 million meals could have been served to seniors with the unused nutrition funds accumulated by the department since fiscal year 1973-74. This is especially significant since it is reported that from 1,000 to 3,400 elderly persons are turned away daily from California's nutrition sites. For each meal not served, the State loses corresponding U.S. Department of Agriculture subsidies and participant contributions amounting to an additional \$1.1 million. In addition, approximately 110 seniors could have been employed with the senior employment funds that were returned unused to the Federal Government in fiscal year 1978-79.

Department's Responsibility for
Administering Federal Funds

The Older Americans Act authorizes the department to disburse each year's federal allotment to the 33 Area Agencies on Aging. The disbursements are based upon a state formula calculated to consider the most accurate available statistics on the geographical distribution of persons aged 60 and older within California.

During the year, the department identifies Older Americans Act funds which are available from various sources and redirects these funds to the area agencies. More specifically, when the department closes its contracts with the local agencies, it determines whether funds are available for redirection. Some of these funds are subsequently committed to local agencies for operations or for capital improvements.

Further, federal instructions pertaining to the nutrition services provided under the Older Americans Act

require the states to promptly disburse funds to local agencies. Specifically, these instructions state that the intent of the law is:

To assure that the maximum number of meals is provided to older persons as soon as possible, and the expenditures of funds at the project level occurs **【sic】** as soon as possible after funds are made available by the Congress and allotted to the State by **【the Administration on Aging】**.*

Analysis of Unused Federal Funds

Our review disclosed that the California Department of Aging has failed to maximize the use of Older Americans Act nutrition and social service funds and Department of Labor senior employment funds. Specifically, we found that approximately \$5.7 million in unused federal nutrition and social service funds have accumulated since fiscal year 1973-74. We also noted that \$539,939 of the Senior Community Employment Service allocation for fiscal year 1978-79 was returned unused to the Federal Government.

* This excerpt is taken from U.S. Department of Health, Education, and Welfare, Office of Human Development, Administration on Aging Program Instruction AoA-PI-77-11, dated February 24, 1977.

To determine the status of federal nutrition and social service funds, we analyzed the department's procedures for identifying and recording these funds. We also examined the department's allotment/expenditure ledger. We found that, since fiscal year 1973-74, the department has accumulated approximately \$5.7 million in unused federal nutrition and social service funds. Table 2 shows the status of these unused funds as of February 13, 1981.

TABLE 2
STATUS OF UNUSED FEDERAL NUTRITION
AND SOCIAL SERVICE FUNDS
FEBRUARY 13, 1981

	<u>Unused Federal Funds</u>		
	<u>Social Service</u>	<u>Nutrition</u>	<u>Total</u>
Funds currently uncommitted to local agencies	\$ 879,000	\$1,651,000	\$2,530,000
Funds identified by closing expired contracts	1,235,000	(376,000)	859,000
Funds contracted for in prior years but not disbursed	<u>1,677,000</u>	<u>1,191,000</u>	<u>2,868,000</u>
Subtotal	\$3,791,000	\$2,466,000	\$6,257,000
Unrecorded carryover funds from prior years ^a	<u>(564,000)</u>	<u>--</u>	<u>(564,000)</u>
Total unused funds	<u><u>\$3,227,000</u></u>	<u><u>\$2,466,000</u></u>	<u><u>\$5,693,000</u></u>

^a Carryover funds are those unearned funds from prior years which can be used in addition to the new funding.

As depicted in Table 2, the \$5.7 million includes funds currently not committed to local agencies, funds identified by closing expired contracts with local agencies, and funds contracted for in prior years but not disbursed. From the combined total of these funds, we have deducted funds promised to the area agencies from prior years' contracts which had not yet been recorded in the department's accounting records.

In examining its use of senior employment funds, we noted that the department returned \$539,939 of its fiscal year 1978-79 senior employment allocation unused to the Federal Government. This action is in compliance with federal regulations which prohibit the department from allowing employment funds to be spent after the expiration date of the grant award. Yet we also found that the department did not disburse an additional \$196,862 in senior employment funds to local agencies in fiscal year 1979-80. Consequently, the department may again return unused funds to the Federal Government when it determines allowable contract expenditures.

Reasons for the Department's Failure to Maximize the Use of Federal Funds

Our review of the department's records disclosed that these factors have contributed to the department's failure to maximize the use of federal funds:

- The department has not promptly closed out contracts or adjusted its records after closeouts to reflect available federal funds.*
- The department's accounting records lack sufficient detail for decision-making, primarily because of staffing problems in the accounting section.
- The department does not regularly monitor local agency expenditures.

Also contributing to the department's underutilization of funds are uncertainties regarding the amount of the federal allotment to the State. Further, federal regulations do not address underutilization of funds by local agencies.

* Contract closeouts affect social service and nutrition funds only.

Contract Closeouts Are Not
Processed and Adjustments
Are Not Recorded Promptly

The department has not promptly closed expired contracts with local agencies. In addition, the department has not promptly adjusted its accounting records to reflect the available funds freed by the closeout. Until the department closes these expired contracts and records the adjustments in the accounting records, it cannot determine the amount of unused funds available for redirection to the local agencies.

After contracts between area agencies and local service providers have expired, federal regulations permit the area agencies up to three months to submit their closeout financial reports to the department. These reports detail the agencies' assets, liabilities, income, and expenditures. To support the closeout statement, the area agencies must also submit other documents, including food and supplies inventories, equipment inventories, bank statement reconciliations, and various schedules.

Based upon the local agencies' closeout report and supporting documentation, the department prepares a closeout statement and compares contract funding amounts with actual project expenditures. In this way, the department determines

the amount of funds remaining for redirection as of the end of the contract period. Until expired contracts have been closed, the department cannot identify the amount of these remaining funds.

During our review, we found that the department had not closed 147 expired contracts as of October 1, 1980. By February 13, 1981, 71 of these contracts had been processed; 76 contracts remained to be closed. The Auditor General's Report P-014.1 issued in October 1980, reported that 36 contracts were not closed as of September 9, 1980. Fifteen of the 36 contracts are still not closed, although they expired prior to January 1, 1980. Table 3 on the following page details the number and amount of the 76 open contracts by fiscal year.

TABLE 3
CONTRACTS NOT CLOSED AS OF FEBRUARY 13, 1981

<u>Fiscal Year</u>	<u>Number of Contracts</u>	<u>Total Amount of Contract Awards</u>
1979-80	61	\$15,198,623
1978-79	9	1,927,000
1977-78	3	1,261,632
1976-77	2	79,079
1975-76	<u>1</u>	<u>48,348</u>
Total	<u>76</u>	<u>\$18,514,682^a</u>

^a This amount represents total contract awards rather than amounts made available for redirection as a result of contract closeouts. Department officials have stated that 5 to 6 percent of contract funds are generally identified during closeout as available for redirection.

After the contracts have been closed, the department should promptly record the adjustments on the accounting records so that management can readily identify amounts available for redirection. However, the department does not immediately make such adjustments. For example, of the 71 contracts closed between October 1, 1980 and February 13, 1981, the department entered adjustments for only 7 closeouts.

According to department officials, the closing of contracts has been delayed because management has assigned other duties to the staff responsible for processing contract closeouts and because other activities have been given priority.

Accounting Records
Lack Sufficient Detail
for Decision-Making

Another factor contributing to the department's inefficient management of federal funds is that its accounting records lack sufficient detail for decision-making. To be specific, we found that the department had not recorded transactions such as amounts owed to the Federal Government, amounts owing from discontinued projects, and monies that have been promised but not yet committed to local agencies. These accounting weaknesses have resulted from staffing problems in the Accounting Section. Because the accounting records are incomplete, the department does not know precisely how much money is available for redirection to local agencies needing such funds.

The department must redirect Older Americans Act funds according to certain federal criteria. Funds that have been obligated to the local agencies but have not yet been spent must be reobligated during the local agency's ensuing

contract year through a notification of grant award. However, when a local project discontinues operation, the department must return any unused contract funds to the Federal Government. In order to return these funds, the department must determine amounts owing from discontinued agencies. Frequently these amounts cannot be recovered from the agencies.

The department has not adjusted its accounts for discontinued projects to reflect reimbursement to the Federal Government. We noted that as of February 13, 1981, the department had neither adjusted the accounts for discontinued projects nor recorded its corresponding liability to the Federal Government.

Furthermore, we found that the department has not maintained adequate records of accounts receivable for local agencies. For example, the department has not billed local agencies for funds due, has not collected these receivables, and has not posted adjustments for uncollectible amounts to department accounts. These weaknesses prevent the department from determining the amount of available funds since it must deduct these uncollectible funds from the total funds available for redirection.

Likewise, we noted instances in which the department had not calculated the amount owed by discontinued agencies. When a local agency discontinues operations, the department can only recover receivables by collecting funds directly from the former contractor. As of February 13, 1981, the department had not determined how much money was owed and how much was collectible.

Further, the department does not set aside funds or make entries in its accounting records showing amounts promised but not yet committed to local agencies. Because the department has not recorded amounts of contracts under negotiation, its accounting records do not accurately indicate funds available for redirection.

These accounting weaknesses have resulted in part from staffing problems in the Accounting Section. We found, for example, that the department has assigned personnel to the Accounting Section without assessing their qualifications, that there are insufficient staff for performing accounting duties, and that personnel were not supplied desk manuals. In addition, the department did not analyze the skills, abilities,

and knowledge needed to perform the various accounting activities when making job assignments or developing job descriptions. Further, the department did not schedule tasks and deadlines for accounting staff.

We also found that insufficient staff were assigned to perform the department's accounting duties. For example, since August 1980, the person in charge of the Fiscal Services Branch has been responsible for performing the duties of two established full-time positions--manager of the Fiscal Services Branch and Contract Administrator.

Further, desk manuals were not provided for each accounting position in the Accounting Section. Supervisory personnel responsible for accounting did not have accounting expertise. Neither the Chief of Administration nor the Fiscal Services Branch manager has formal accounting training with which to evaluate or plan accounting staff performance. Because of these deficiencies, the department cannot be certain of the amount of funds it has available for redirection.

The department has attempted to solve deficiencies in its Accounting Section by creating a special task force to review its accounting activities. Thus far, the department is implementing these actions:

- Establishing new accounting records;
- Hiring staff to fill vacant positions;
- Reorganizing the section and reassigning management responsibilities; and
- Developing desk manuals.

Although the accounting records have been established and were being used as of February 13, 1981, we observed that the accounting staff had not been thoroughly trained to use the new accounting records. Also, supervisors were not consistently reviewing the accounting work performed. In our opinion, the success of the department's new accounting system will depend on the analysis of its financial staffing requirements and the thorough training and supervision of its accounting staff.

Local Agency Expenditures Are
Not Periodically Monitored

The department is not able to maximize federal funds because it has not ensured the best utilization of program funding by monitoring the expenditures of local agencies and by reallocating unused funds on a timely basis. That is, the department does not use its accounting records to compare the budgeted and actual expenditures of local agencies to determine if they are underspending or overspending their allocations..

So that resources may be used to meet program goals, the department should monitor funds allocated to local agencies. The department can ensure that funds are maximized by reallocating funds from local agencies that do not expend their total allocation to those agencies in need of additional funding.

Our review disclosed that approximately \$2.9 million remained from prior years' social service and nutrition contracts. This amount represented allocated funds that had not yet been spent by the local agencies. If the department had monitored the use of these funds, such funds could have been more promptly and effectively redirected.

The department's failure to monitor the use of funds is further illustrated by the fact that \$539,939 in senior employment funds for fiscal year 1978-79 was returned unused to the Federal Government. The department obligates senior employment funds to local agencies based upon the proportion of seniors in each planning and service area. However, the department did not review or analyze the local agencies' use of these funds for prior years. Thus, even if an area agency repeatedly did not use its entire allocation, the department would not adjust the funding amount for the following year.

In February of 1981, we informed responsible department staff that according to our calculations, a portion of the fiscal year 1980-81 senior employment allotment to California would not be used. We were informed that the department would not adjust awards because it was too late in the year to divert funds to agencies needing additional senior employment funds. The department did, however, forward a memorandum to the area agencies asking them to evaluate their current senior employment funding levels. The area agencies were further asked to spend all their senior employment funds by June 30, 1981.

On February 6, 1981, we determined that \$266,114 of the fiscal year 1980-81 senior employment funds would not be fully used based upon a projection of fiscal year 1980-81 expenditures to date. In response to our projection, the department agreed to contact several area agencies that were underutilizing their senior employment funds. These agencies were advised to submit a detailed plan for spending all of their funds since all projected unexpended funds would be redirected to other agencies.

Previous audits have identified deficiencies in the department's accounting for and monitoring of federal funds. The department was advised in 1974 by the Department of Finance to develop budgetary control procedures to provide management with current information on the status of funds. The department was again advised in 1975 and 1978 by the Auditor General and in 1977 by the U.S. Department of Health and Human Services that federal Older Americans Act funds were not being promptly used. Finally, the department has received numerous recommendations from the Department of Finance, the federal Administration on Aging, and from its own internal audit unit to improve its accounting systems. A compendium of audit findings addressing the California Department of Aging is presented in Appendix B.

Uncertainties in the
Allocation of Federal Funds
Have Affected Fund Usage

Aside from weaknesses in the department's closeout of contracts and accounting system, uncertainties regarding the amount of the federal allotment as well as federal regulations which do not address underutilization of funds by local agencies have contributed to the department's difficulty in maximizing the use of federal funds.

Federal funding is uncertain because the amount of the federal allotment to the State is generally not announced until several months following the award of contracts to local agencies. The federal funding process works in this way: the department lets contracts with local agencies commencing July 1. These contracts are necessarily based on an estimated federal allotment.* The total amount of the federal allotment is often not confirmed until after January of the ensuing year. Once the federal allotment to California has been determined, the department must adjust existing contracts to allocate additional funds. As a result, the department has had funds

* This allotment could be based on either the level of funding received the previous year or a continuing resolution--that is, a sum of money allotted by Congress to allow continued funding of programs until the federal budget bill is passed.

remaining unallocated as late as eight months after the start of the contracts. And at the local level, agencies cannot effectively plan for and spend funds received so late in the contract year.

Finally, the federal regulations concerning allocations to the local agencies do not address underutilization of funds. The regulations state that preference be given to those seniors with the greatest economic or social need. These regulations also stipulate that the allocation of funds must reflect the proportion of persons 60 years of age and over among the State's planning and service areas. Yet they do not specifically address adjustments in the allocation if local agencies fail to use their entire allocation.

In response to these regulations, the department has allocated funds to area agencies based upon the number of persons 60 years and older and the number of supplemental security income recipients. Department officials believe that they cannot deviate from this basis of allocation even when local agencies fail to use all of their annual allocations. Thus, certain agencies continue to receive more money than they spend while other agencies have deficits.

Effects of Failure to Maximize Federal Funds

Because the department has failed to maximize the use of federal funds, California's elderly population has not fully benefited from nutrition and social services. Specifically, 1.2 million meals could have been served to seniors with the nutrition funds unused since fiscal year 1973-74. And for each meal, the State could have received federal subsidies and participant contributions totaling approximately \$1.1 million. Additionally, approximately 110 seniors could have been employed with the senior employment funds that were returned unused to the Federal Government for fiscal year 1978-79.

Federal officials have determined that the cost of each meal served includes approximately \$2 in federal funds. We therefore calculate that approximately 1.2 million meals could have been served to California's elderly population with the \$2.5 million unused nutrition funds accumulated by the department since fiscal year 1973-74. This is especially significant since it is reported that from 1,000 to 3,400 elderly persons are turned away daily from California's nutrition sites. For each meal not served, the State also loses corresponding U.S. Department of Agriculture subsidies of 43 cents per meal and participant contributions averaging 50 cents per meal. Additionally, local agencies provide social

services at nutrition sites. Loss of meals and these social services may cause additional hardships. In a speech delivered to the Assembly Committee on Aging in March 1981, the Director of the California Department of Aging noted three results of denying services to the elderly:

The nature of the hardship imposed by the lack of service availability is defined by three outcomes:

1. Social, psychological and physiological health is negatively impacted.
2. Available income due to higher food expenses is reduced.
3. The senior may not find access to other needed services which otherwise would be available at the nutrition site.

Further, the department has failed to maximize its senior employment funds by returning unused funds to the Federal Government. According to the Federal Government, an average of \$4,944 in senior employment funds will fully support the part-time employment of a senior for one year. From this average figure, we calculated that an additional 110 seniors could have been employed during fiscal year 1978-79 with the \$539,939 returned unused to the Federal Government. Also, the unused \$196,862 in fiscal year 1979-80 funds represents additional lost employment opportunities for seniors.

CONCLUSION

The department has failed to maximize the use of federal funds. Specifically, the department has not used \$5.7 million in social service and nutrition funds that have been made available to California. Further, the department has returned \$539,939 in unused senior employment funds to the Federal Government.

This inefficient management of federal funds has resulted from administrative weaknesses and from uncertainties in the federal allocation of funds. The department has not promptly closed contracts or adjusted its records to reflect additional funds. Further, the department's accounting system lacks sufficient detail for decision-making. The department also does not regularly monitor local agencies' expenditures or adjust underutilized contracts on a timely basis. Added to these departmental problems are uncertainties regarding the amount of the federal allotment and problems with federal regulations which do not address underutilization of funds. As a result of the

failure to maximize funds, seniors have not fully benefited from nutrition and social services and have lost employment opportunities.

RECOMMENDATION

To ensure that the California Department of Aging maximizes the use of all federal funds, we recommend that it adopt measures related to use of federal funding, contract processing, accounting for funds, and monitoring local agencies' expenditures.

First, the department should implement procedures to ensure that the Older Americans Act funds not used since fiscal year 1973-74 are immediately identified and redirected to the local agencies.

To improve contract processing, the department should deploy sufficient staff to more promptly close contracts and record adjustments to the accounting records. Also, it should assign a high priority to expediting contract closures and identifying funds for redirection.

And to improve its accounting for funds, we recommend the department establish complete accounting records to readily identify funds available for redirection by:

- Identifying and recording all funds which must be returned to the Federal Government;
- Invoicing and collecting accounts receivable; and
- Recording funds promised to local agencies but not yet contracted.

And to minimize staffing problems in the Accounting Section, the department should review and analyze the skills, knowledge, and abilities required for departmental job assignments and staff positions so that tasks are effectively performed and readily evaluated. This procedure may include requiring that supervisory staff have accounting expertise. Further, the department should ensure that the accounting staff is adequately trained and supervised, especially when new procedures or policies are instituted.

Next, we recommend that the department establish effective monitoring and control of federal funds by:

- Reviewing budget/actual expenditures each month;
and
- Establishing procedures to redirect funds from underutilized contracts.

Finally, we request the department to report to the Legislature in 60 days concerning the implementation of these recommendations.

THE CALIFORNIA DEPARTMENT OF AGING
HAS NOT ADEQUATELY ASSISTED LOCAL AGENCIES
OR EFFECTIVELY CONTROLLED THEIR OPERATIONS

The Older Americans Act mandates that a single state unit on aging coordinate programs for the elderly through local area agencies. To develop the required statewide network for delivery of comprehensive services to the elderly, the California Department of Aging must disburse funds to agencies, provide them with technical assistance, develop a needs assessment policy, and control programs at the local agencies. Yet the department has not provided sufficient assistance to the local agencies, nor has it effectively controlled their operations. Specifically, the department has not

- Processed local agencies' requests for funds in a timely manner;
- Furnished agencies with sufficient technical assistance and written policy guidelines;
- Developed a policy assessing the needs of the elderly;
- Ensured that area agencies operate properly.

In some cases, these deficiencies have occurred because the department has failed to establish adequate systems, procedures, or policies. In other instances, it has not adhered to established procedures and standards. As a result of these weaknesses, the department cannot ensure the Legislature and the federal Administration on Aging that it has effectively developed a coordinated, comprehensive statewide aging network to efficiently provide services to the elderly. Further, local agency staff must address inconsistencies created by the department. This time could be more effectively used to develop local resources to fund services for the elderly.

Area Agencies' Requests for Funds
Have Not Been Processed Promptly

The department has not processed local agencies' requests for funds in a timely manner. Department guidelines indicate that the department should process such requests within six working days from the date it receives the request for funds. This situation has occurred because the department has not centralized the processing of requests; thus, no one departmental entity ensures that funding requests are processed within established timeframes. Neither has management set

deadlines to assure that claims are promptly submitted to the State Controller. Consequently, some local agencies run short of cash until they receive operating funds.

After establishing a contract for services with the department, local agencies use a request for funds to obtain monies. The department reviews and approves these requests, and forwards them to the State Controller for payment. A department memorandum indicates that these requests should be processed and submitted for payment within six working days from the date the department receives the local agency's request for funds.

We tested the department's records to determine how long it takes to process requests for funds. Table 4 shows the results of our test of 34 requests for funds.

TABLE 4
AVERAGE TIME REQUIRED TO PROCESS REQUESTS FOR FUNDS

<u>Step</u>	<u>Days Elapsed</u>		<u>Under (Over)</u> <u>Criteria</u>
	<u>Department</u> <u>Criteria</u>	<u>Average</u> <u>Sample Results</u>	
The department logs, reviews, and forwards the requests for funds to the Accounting Section.	3	2	1
Payment desk schedules the requests and forwards them to the Controller's Office.	<u>3</u>	<u>12</u>	<u>(9)</u>
Total Departmental Processing Time	<u>6</u>	<u>14</u>	<u>(8)</u>

As illustrated in Table 4, we found that it takes an average of 14 days to process local agencies' requests for funds--more than twice as long as the department's criteria for processing these requests. Further, we noted that the department's total processing cycle ranged from 3 to 40 days.

This situation has occurred because the department has not assigned a single unit the responsibility of ensuring that the requests are processed within established time frames nor has management assigned deadlines for submitting claims by the Accounting Section. To be specific, three separate units within the department are involved in processing requests for funds. The Contracts Section of the Fiscal Services Branch

receives the requests and reviews them for accuracy. If this division notes an error, it routes the requests to the program consultant in the Program Operations Division. When this division has resolved the error, it returns it to the Contracts Section for approval. The requests are then forwarded to the Accounting Section for preparation of the claim schedule. These claims are often submitted to the Controller after the start of the month for which funds are requested. These claim schedules are prepared by the Accounting Section as time permits and not according to a time table or with regard to a deadline established by management.

Delays in processing requests for funds have created cash shortages at the local agencies. One agency requested two months of advanced funding so that its nutrition and social service programs would not be disrupted. In its letter to the department's director, the area agency referred to previous funding delays:

This request by the [agency's] Advisory Council is made to avoid passed [sic] delays in funding, where the program(s) of a county were so endangered that the Service Providers had to go to the Bank to borrow monies to cover the funds due that county to continue services to the Seniors. This happenstance repeated itself three (3) times in seven (7) months.

Also, a letter from a newly designated area agency to the director recounted a pattern of cash shortages due to delays in funding:

Our staff has already had to travel to Sacramento to personally pick up our first cash request for this fiscal year on October 15th and are presently awaiting our second request which we will again have to pick up in person due to our funds having run out. This month, we have been borrowing from another account to stay afloat. We cannot continue to maintain this mode of operation. We feel your Department was not very willing to assist us to avoid this situation.

As these letters demonstrate, service providers have had to borrow funds to continue services to seniors because the department has failed to process requests for funds promptly.

Insufficient Technical Assistance and Written Policy Guidelines

The department is not meeting its administrative responsibilities to area agencies because it has not furnished them with sufficient technical assistance or written policy. The federal regulations state that the department "must provide technical assistance to agencies, organizations, associations, or individuals representing older persons." These regulations further state that the department must have, follow, and keep current written policies to carry out its function.

In addition to complying with complex federal and state requirements, local agencies must maintain detailed accounting and reporting systems. Because some service providers may lack administrative or financial expertise, they need complete written guidelines and technical assistance. Area agencies have had difficulty complying with program requirements because of inadequate technical assistance and the lack of written policies. The importance of providing sufficient technical assistance is illustrated by the fact that the federal Administration on Aging has begun to evaluate the operations of the local agencies. When discrepancies in local agency operations are noted, the Federal Government may disallow certain costs.

Lack of Technical Assistance

According to federal regulations, the state agency responsible for administering the Older Americans Act must provide technical assistance to the area agencies. The department uses program consultants and fiscal analysts to accomplish this responsibility. However, technical assistance supplied to these agencies has been inconsistent because consultants are frequently shifted among programs and because the department has not clarified the consultants' responsibilities. As a result, the area agencies have difficulty complying with program requirements.

We found that the quality of technical assistance depends upon the individual consultant assigned to the local agency. Generally, the technical assistance provided has been inconsistent and ineffectual. In our review, 18 of the 22 local agencies contacted reported problems regarding the quality of the technical assistance provided.

One instance illustrating the poor quality of technical assistance involved a local agency that needed help in preparing a budget. The agency's earlier budget submissions had been returned by the department for corrections. After requesting assistance, the agency arranged for both the assigned program consultant and the fiscal analyst to visit the site and provide the necessary assistance. But when the consultant and the analyst arrived, they disagreed on how to properly resolve the budget question. Thus, the problem was not resolved and the budget submission was further delayed. The local agency operated without receiving federal funds from July through October 1980--four months into the contract year.

The quality of assistance provided has been affected by continuous shifting of consultants. During the period from December 1979 through February 1981, only 3 of the 33 planning and service areas had the same program consultant assigned to

their respective areas. Fourteen of these areas (over 40 percent) were assigned three or more different program consultants during the fifteen-month period.

In addition to the constant reassignment of personnel, the department has not clarified the roles and responsibilities of technical assistance providers. This situation has created inconsistencies in the provision of technical assistance. There are no written guidelines delineating the nature and extent of the technical assistance that the department is to provide. As noted earlier, this determination is left to the discretion of each consultant. Consequently, local agencies cannot be assured of receiving comparable levels of assistance from different consultants. Department officials indicated that management controls related to the provision of technical assistance are being initiated.

Previous audits have also identified the department's deficiency in providing technical assistance. The department was advised in 1974 by the Department of Finance, in 1975 by the Auditor General, and again in 1978 by the Department of Finance that its technical assistance was inadequate. A compendium of audit findings addressing the California Department of Aging is presented in Appendix B.

Incomplete Written Policies

Federal regulations require the department to maintain and follow written policies to carry out its operations. Yet we found that the department's current administrative manual, issued in 1978, is incomplete. Further, we learned that the department has released two other manuals as well as various memorandums detailing policies and procedures. Generally, these departmental regulations have not been properly compiled or distributed to assist local agencies. As a result, these agencies have difficulty satisfying departmental directives and goals.

The department's current administrative manual contains the statement that it is "the primary reference source for policies, procedures, and regulations issued by the Department." This manual, released in 1978 even though it was incomplete, deals primarily with local agency operations. Because of a lack of staff resources, this manual has never been completed.

A manual issued in 1976 also addressed department procedures and policies. The department has also released two other manuals that have never been officially recalled or

incorporated into the new manual. Further, three other types of written correspondence have emanated from the department to the local agencies:

- Technical Assistance Memos which are written to provide assistance to local agencies on various subjects;
- Information Memos which vary in subject matter from notification of federal regulations to general information; and
- Policy Memos which are used to announce new or revised policies.*

Generally, documents and correspondence outlining policies have not been systematically consolidated or distributed. The supervisor responsible for developing the current manual stated that the writers of the information and technical assistance memorandums decided to whom these would be distributed. This supervisor further noted that policy memorandums are disseminated only to those local agencies affected by the policy. In the past, the department has not attempted to properly compile or distribute the current administrative manual and all other manuals. Previous audits

* The department plans to include all policy memos in the manual.

have also identified this deficiency. The department was advised in 1974 and again in 1978 by the Department of Finance that its written policies were insufficient.

Because the department has released various manuals and several types of memorandums to communicate policies and guidelines, local agencies have had difficulty understanding and complying with program requirements. Many local agencies complained that program consultants cannot promptly supply policy information. Indeed, one department official stated that much of the program consultant's time was spent trying to locate policy on matters pertaining to local agencies' operations. Staff at the local agencies also reported to us that when written information was supplied, it was often vague and contradictory.

Given these deficiencies in departmental coordination and in written guidelines for both local agencies and departmental employees, the department increased the amount of staff resources devoted to completion of the manual. A department official stated that many employees were unfamiliar with current policies and were unable to obtain necessary information. Consequently, in October 1980, additional staff resources were directed towards completing written policies and guidelines.

In this regard, the department is now developing two new manuals, as follows:

- The Grantee Manual will deal solely with matters pertaining to local agency operations;
- The Administrative Manual will contain all internal policy.

These manuals are expected to be completed and distributed before May 1981. In addition to these manuals, the department plans to create desk manuals for each branch within the organization.

To summarize, without sufficient technical assistance and written policy guidelines, local agencies have difficulty in complying with state and federal regulations. Similarly, these agencies need adequate service and guidance to meet the department's goals.

Policies for Assessing
the Needs of the Elderly
Have Not Been Developed

Federal law and regulations require the department and local agencies to assess the needs of the elderly as part of the planning process. Additionally, the law requires that programs give preference to those elderly having the greatest

economic or social need. Even though the department has initiated some activities to assess the needs of the elderly, it does not have a comprehensive policy or process to develop and apply needs assessment information at the state or local level. As a result, the department cannot ensure that federal funds are used to meet the needs of the elderly.

Needs assessment is defined as a research and planning activity that assists in identifying the problems of the elderly and in determining what available services address those problems. Methods of assessing needs can include holding public hearings, gathering secondary data from state and federal sources, soliciting comments from service providers, and surveying seniors participating in programs for the elderly as well as all persons 60 years of age and older.

The department has noted several benefits of performing a needs assessment. For one, such assessments could enable the department to formulate plans best reflecting the needs of the elderly. Additionally, they would provide a basis for establishing priorities for the use of limited resources. Finally, these assessments can form a basis for ascertaining the efficiency and effectiveness of current programs.

The responsibility to assess the needs of California's elderly population rests with the department as well as the local agencies. Both the Older Americans Act and the Older Californians Act require the department and local agencies to evaluate older persons' needs for social and nutrition services and to determine the extent to which other public and private programs meet such needs.

Although services are to be made available to all older persons, the intent of both federal and state legislation is that the State, the local agencies, and the service providers should give preference to older persons with the greatest economic or social need in planning and service delivery. To meet this requirement, local agencies could, for example, locate services in targeted locations or specialize in the types of services most needed. However, federal regulations specifically forbid the use of tests to determine economic need.

In responding to these laws and regulations, the department has initiated activities to assess the needs of the elderly. Specifically, the department engaged a consultant to develop a data base on older Californians from sources at other state agencies, a questionnaire to survey the older population, and a guide for local agencies to use in developing needs

information and planning data. And, in its 1979-80 and 1980-81 State Plans on Aging, the department included an objective to develop and implement a needs assessment methodology and questionnaire. Currently, the department is developing a policy to direct the systematic development and use of needs data for making sound decisions about allocating resources.

Despite these efforts, the department has not developed or implemented a policy or process to assess the needs of the elderly as required by the law. For instance, although the data base has been completed, it has not been updated. Also, although some local agencies have used the questionnaire developed by the consultant, the department has not used it as planned. Further, the department has not given local agencies any specific guidelines for developing and using needs assessment data even though it requires local agencies to document that they conducted such an assessment in developing their area plans.

The department also has only partially met the objective in its State Plan to develop and implement a needs assessment survey. The department does not plan to implement a statewide needs assessment survey, since it believes that it would be too costly. Lastly, as of January 30, 1981, the department had not developed a needs assessment policy.

Previous reports have noted that the department has not adequately analyzed the needs of the elderly. In a management review of the department in 1977, the federal Department of Health, Education, and Welfare indicated that the department does not ensure that local needs are being adequately assessed. Further, the Legislative Analyst stated in the 1979-80 Budget Analysis that "the department, to a large extent, neglected to assess the need for specific sites based on the needs of the elderly in the surrounding area."

During our review we found evidence that the elderly receiving services are not always those needing such services. A department official stated that the nutrition sites are vital in providing services to assist elderly persons who might otherwise be institutionalized. However, the director of one of the nutrition sites we visited remarked that approximately 90 percent of the seniors attending the site are not economically needy. Moreover, another senior center providing both nutrition and social services primarily to low income, minority seniors has been unable to secure funding from the local area agency for its social services.

Without policies or processes to evaluate the needs of its client population, the department cannot ensure that it serves those with the greatest economic or social needs.

Procedures Inadequate for
Ensuring that Programs
Operate Properly

The department is responsible for ensuring that the area agencies are properly operated according to contract agreements between the department and the area agencies. However, the department's procedures for controlling programs under the Older Americans Act are inadequate. Specifically, the department does not promptly and completely assess program operations. Neither does the department sufficiently audit prior year contracts and resolve audit exceptions. Finally, the department does not properly administer the sanction policy to bring local agencies into compliance with program requirements.

Because of these weaknesses, the department has not been able to ensure that local agencies are complying with federal and state requirements. Additionally, the federal Administration on Aging may disallow certain costs when it notes discrepancies in local agency operations.

Assessments Are Not
Thorough or Timely

The department is not monitoring and evaluating area agencies thoroughly or promptly. Federal regulations require

the department to periodically evaluate the fiscal, program, and nutrition operations of each local agency having a contract with the department.

The department did not evaluate all area agencies during 1980 because of a change in management priorities. The department planned to perform base line assessments--that is, evaluate each area agency's operations--between July and December of 1980. Departmental guidelines state that all assessment reports should be sent to the local agencies within 15 working days after the evaluation is performed. Local agencies then must respond to the assessment report within an additional 15 working days.

In our review, we found that 11 of the 33 local agencies (33 percent) were not evaluated as of March 1, 1981. Further, we found that only one of the assessments was issued within the 15 working days stipulated by the department's policies.

We learned from a department official that agencies were not assessed because of a shift in priorities during the third quarter of 1980. This change was due to the department's effort to upgrade its administrative manual and fiscal systems. However, unless assessed, local agencies do not have a clear

understanding of the department's expectations of their program. Additionally, the department cannot ensure compliance with federal and state regulations at the local level.

This problem has been discussed within previous audit reports. The department was advised in 1977 by the U.S. Department of Health, Education, and Welfare; in 1978 by the Department of Finance; in 1979 by the Auditor General; and again in 1979 by the Department of Health, Education, and Welfare that its activities for assessing projects were deficient.*

The department plans to initiate a new process under its organizational structure. Specifically, it will assess area agencies that have not undergone a base line assessment and then rely on each agency's self-assessment to monitor the local operations.

Internal Audits Are Insufficient
and Audit Exceptions Are Not
Being Resolved

Audits of local agencies performed by or on behalf of the department do not meet the federal audit requirements for state and local governments that receive

* The U.S. Department of Health, Education, and Welfare is now called the U.S. Department of Health and Human Services.

federal assistance. Such audits are to determine whether (1) financial operations are conducted properly, (2) the financial statements are presented fairly, (3) the organization has complied with laws and regulations affecting the expenditure of federal funds, (4) internal procedures have been established to meet the objectives of federally assisted programs, and (5) financial reports to the Federal Government contain accurate and reliable information. Additionally, regulations stipulate that each local agency is to be audited at least once every two years. Because the department has not properly managed its audit responsibilities, local agencies have not been audited as frequently as required, and audit exceptions have not been resolved. Consequently, the department cannot ensure that local agencies are complying with federal and state regulations, that program resources are efficiently and effectively used, and that programs are achieving desired results.

Historically, the department has not properly administered the audit function. Prior to 1978, the department permitted local agencies to obtain their own audits. Very few audit reports were completed on time, and many more audit reports were never submitted. The audit reports that were received varied in content, ranging from financial reports of a local agency's account balance to certified public accountants' reviews of an agency's completed fiscal transactions.

To minimize these problems, the department contracted with the Department of Finance (DOF) in fiscal year 1977-78 to perform the required audits. But the DOF auditors did not complete their schedule of audits as proposed; consequently, the department did not renew this contract. Instead, it entered into an agreement with the State Controller's Office, whose audit staff performed five audits on behalf of the department. Subsequently, the department started its own audit unit in February 1980 to increase the timeliness and efficiency of audits.

Our review disclosed that the audit reports assessing local agencies' operations since fiscal year 1977-78 omit pertinent information. We reviewed the audit files for audits performed on local agencies' operations in fiscal years 1977-78, 1978-79, and 1979-80. Only 7 of the 126 audit reports we analyzed (6 percent) contained any program compliance information, and 47 audit reports (37 percent) included no information which the department's fiscal or program analyst could use.

Further, we noted that audit questions had not been fully resolved. We reviewed the audits sent to the Program Operations Division prior to January 1, 1981. This division is

responsible for reviewing and resolving audit findings. We found that of the 135 audits sent for resolution, the audit unit had received notification on the resolution of 55 or 41 percent.

One reason this problem has occurred is the lack of procedural guidelines for resolving audit exceptions. Although the department circulated a draft audit resolution procedure in August 1980, as of February 1981, no official procedure was in effect. Because audits are insufficient in scope and numbers and because audit exceptions are not resolved, the department has no assurance that the local agencies are spending federal monies in compliance with applicable rules and regulations.

The manager of the audit unit stated that during 1980 the unit concentrated on the fiscal operations of the smaller area agencies to allow auditors to become familiar with the department and its programs. A management efficiency and effectiveness component to be used in the audit program is being developed and tested. The audit unit plans to incorporate this into its audit program after April 1981.

Sanctions Are
Inconsistently Administered

The department has not properly applied or administered its sanction policy intended to encourage local agencies to comply with the terms of their contracts. To be specific, the department has applied the policy inconsistently and has not documented or dated sanctions. Because of the problems with this primary method of enforcement, the department cannot ensure that local agencies are fully complying with federal and state regulations.

The department's Administrative Manual states that the purpose of the sanction process is to encourage prompt corrective action when a local agency fails to comply with the terms of a contract. The sanction process works as follows: after noting a violation, the department prepares a Request for Follow-Up Action form to document the instance of noncompliance. If the local agency fails to comply with the department's request for follow-up action, the department temporarily withholds funds. If this action fails to bring compliance, the department next suspends the local agency's contract. Finally, when it is clear that no other sanction will bring about compliance, the department terminates the contract with the local agency.

Our review found that the department has administered its sanction policies inconsistently. For example, some area agencies have received sanctions for not submitting a contract closeout when, in fact, the terms of their contracts had been extended. In another case, the department has issued a sanction even though a program consultant had assured local agency staff that the sanction would be cancelled. Yet the department has not sanctioned agencies which did not submit area plans on scheduled due dates. A department official explained that in these situations the department prefers to work with the local agency to solve its problems.

Despite this official's statement, we found that after the October 1980 consolidation of all projects under the area agencies, the department levied numerous sanctions against these agencies for the deficiencies of projects newly assigned to them. These projects were the department's responsibility prior to consolidation. The department later rescinded these sanctions as a result of local agency complaints.

In reviewing a total of 30 sanction reports from both the cancelled sanction file and the in-process sanction file, we found that 19 of the 30 sanction reports (63 percent) were improperly administered. Table 5 shows a breakout of the problem areas.

TABLE 5
PROBLEMS WITH SANCTIONS REVIEWED

	<u>Number of Sanctions^a</u>	<u>Percentage of Total</u>
Lack of proper dates	25	83
Insufficient documentation	11	37
No sanction initiator signature	4	13

^a The same problem may fall into more than one category.

In reviewing that portion of the form the Accounting Section uses for documentation purposes, we found only 5 of the 30 files reviewed (17 percent) included dates showing when the section had implemented each phase of the sanction process. The department official in charge of sanctions stated that the accounting department maintained records on the implementation of the various levels of sanctions. We reviewed the documentation maintained by the Accounting Section. We found that 5 of the 30 sanctions reviewed had no information on file and that 12 sanctions contained no dates indicating when or if the Accounting Section implemented the action.

The department official responsible for sanctions stated that the department was aware of the various problems with the sanction process. The official further said that improvements have been discussed and are now being implemented.

CONCLUSION

The California Department of Aging's procedures for monitoring, evaluating, and enforcing programs under the Older Americans Act are deficient. Even though the department has been advised repeatedly that the assistance it provides the local agencies is insufficient, it has continually failed to correct these deficiencies. It appears that department management has been unwilling or unable to deal effectively with its problems.

Specifically, the department has failed to provide sufficient assistance and guidance to the local agencies in these areas:

- Processing local agencies' requests for funds in a timely manner;
- Supplying agencies with adequate technical assistance and written policy guidelines;
- Developing a needs assessment policy; and
- Establishing procedures for ensuring that area agencies are properly operated.

Because of deficiencies in these areas, the department cannot ensure that its programs for the elderly are effectively and efficiently monitored and controlled and that California's elderly population is properly served.

RECOMMENDATION

To ensure that the California Department of Aging adequately serves and guides the local agencies, we recommend that it adopt these measures:

- Assign priority to tasks which expedite the processing of requests for funds and assign the responsibility for ensuring that these requests are processed promptly;
- Assign deadlines for submitting funding requests to the Controller so that claims can be processed and funds sent to the local agencies on a timely basis;
- Complete a manual for both local agency and department use and routinely update this manual. Further, desk manuals should be developed delineating duties and responsibilities by branch and position;

- Clarify the roles and responsibilities of the staff providing technical assistance to the local agencies;
- Develop and implement a needs assessment policy for the 1982-83 planning cycle;
- Define the process for developing and using needs assessment data at both the state and local agency levels for planning and resource allocation purposes;
- Perform assessments on the 33 Area Agencies on Aging annually and report the results on a timely basis;
- Develop and institute an audit program designed to review all aspects of local agency operations. These audits should be performed every other year according to regulations;
- Establish and implement audit resolution procedures and include appropriate deadlines for resolving audit issues;

- Ensure that all sanctions are adequately reviewed before issuance. Additionally, the sanction process should include direct telephone contact to warn local agencies of the impending sanction action;
- Report to the Legislature in 60 days concerning the implementation of these recommendations.

OTHER PERTINENT INFORMATION

In the following sections, we address the department's implementation of a management information system which is incompatible with data on area plans. We also include information on the department's administration of Title IVA federal training funds to provide services for local agencies and training for department staff.

Implementation of Incompatible Systems

To implement efficient programs for the elderly, various management systems must be compatible. However, the department's management information system now being automated is incompatible with its newly adopted area plan format.

To assist in overall planning, the department requires area agencies to submit individual area plans. The department then reviews these area plans and develops a state plan based on area data. The department has made changes to improve the area plan process. Under contract, the department obtained a revised area plan format in mid-1980 and has recently implemented the recommended changes. The new plan, designed to improve department operations, requires information which will supplement the department's data base. Such data

will assist the department in analyzing area plans, monitoring programs, and evaluating program results. The area plan format features a consistent program definition to help minimize confusion.

In September 1980, the department entered into a contract to automate the current management information system. The new automated system will utilize consistent program definitions; however, the definitions used differ from those featured in the newly designed area plan format.

Because these recently revised systems are incompatible, administrative costs at the local agency may increase. Officials at one of the two local agencies that tested the automated management information system expressed concern that the time required for coordinating the systems could be more effectively used to develop local funding.

Training Activities

The department's Training Branch provides training programs for both Title IVA and departmental needs.* During fiscal year 1979-80, the Training Branch, with a budget

* One purpose of Title IVA funding is to support training programs for personnel in a field related to aging.

allocation of nearly \$536,000, offered 32 programs to a total of 10,200 persons. Approximately 95 percent of this branch's resources are directed to local agency volunteers and employees, and others involved in the field of aging. The Training Branch presently has six staff positions.

The department determines statewide training needs by reviewing information obtained from (1) a needs assessment survey sent to approximately 1,400 persons or organizations on the department's mailing list, (2) training course evaluations used to review existing courses and to solicit information about any additional training requested by program participants, and (3) informal surveys obtained from discussions with organizations involved with the elderly and from consulting with the department's managers and staff.

Employee needs are identified informally based on discussions with employees' supervisors and division chiefs. When the needs of four or five employees have been identified, the department may develop an in-house training program. The Training Branch considers on-the-job training to be the responsibility of the individual employee's supervisor. Consequently, no specific effort is directed towards this area.

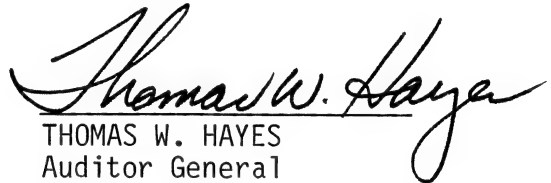
Training offerings, proposed by organizations other than the department, are funded with Title IVA monies through the Request for Proposal process. All proposals are reviewed and evaluated by members of an appointed committee. All training offerings must include performance-objective criteria.

The federal Administration on Aging reviewed the department's training programs, policies, and records and concluded that the department's Title IVA program is a good performance-based operation.

However, in reviewing departmental programs, we found that the department does not have written internal training policies. Further, training programs for employees could be strengthened.

The department's internal training policies are being developed. Additionally, the Training Branch is now attempting to establish a "core curriculum" program for all professional staff. The purpose of the program would be to acquaint the participants with various subject areas related to aging. Implementation of the "core curriculum" program should substantially boost the quality of the training program for the department's staff.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: April 22, 1981

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April 22, 1981

Mr. Thomas W. Hayes
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State of California
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Dear Mr. Hayes:

We have received a copy of your report entitled "Improvements Warranted in the California Department of Aging's Administration of Programs for the Elderly." Although we shall respond to specific items in the report which need further clarification, in general we found that the report objectively describes many of the difficulties we have had in the past and some of the things we are doing to correct the problems. Your staff made every effort to be fair and to make suggestions as they went along. Many of their suggestions are already being implemented.

In order to put some of our past difficulties in proper perspective it is important to realize that the Department has been operating with a steadily diminishing administrative capacity in both program and fiscal areas over the years in proportion to a rapidly expanding administrative responsibility under both the Older Americans Act and the Older Californians Act. The Department's administrative budget has gone from 5.95% of federal nutrition and social service funds in 1973-74 to 2.97% in the current year while during the same period Title III funds for which the Department is responsible increased by 75.4%. Area Agencies are allowed up to 8.5% for administration under the Older Americans Act. This has seriously limited the staff resources we could apply to problem resolution.

The following comments respond to specific audit results as stated in the report:

UNDERUTILIZATION OF FEDERAL FUNDS

Although a total of approximately \$5.7 million in social service and nutrition funds, accumulated since fiscal year 1973-74, remains unused, note should be taken that this balance has been reduced from as much as \$14,000,000, identified by the Auditor General in previous reports.

Of the \$5.7 million, \$2,098,895 represents unexpended balances from prior years which will be utilized to the maximum extent allowable under State and Federal Regulations; \$2,165,490 represents an estimate of funds which will be unexpended from current year grants which Area Agencies will be allowed to carry forward for the first quarter of next year (fourth quarter of Federal Fiscal Year); and \$1,223,042 is current

year funds specifically reserved as a means of offsetting the anticipated shortfall between current funding levels and projected federal allotments for the coming year. Of the \$1.2 million above \$1.15 million has been included in the allocation plan for next year already distributed to Area Agencies. These funds plus the funds carried forward will allow a more gradual phase down of service levels.

CLOSEOUTS NOT PROCESSED OR RECORDED PROMPTLY

As of April 21, 1981 the Department has obtained the temporary assistance of up to ten auditors from another Department who will be assigned only to closing out expired grants. With this assistance, the backlog of closeouts will be eliminated without impinging on ongoing responses to requests for funds, verification and analysis of project expenditures and provision of technical assistance and monitoring efforts.

While there have been past delays in posting closeout transactions to the records, all completed closeouts had been posted by March 11, 1981. However, since all closed out grants are subject to audit, some changes in amounts can be expected. All new closeouts will be posted as they are completed.

REVERSION OF TITLE V FUNDS

It is true that some funds allotted under the Federal Senior Employment Program (Title V) have reverted to the Federal Government. However, it should be noted that the Senior Employment Program is the only program in which unused funds cannot be carried forward for use in the subsequent grant year, limiting the Department's opportunity to adjust awards most efficiently.

The findings by the Auditor General indicate that, although total funds available under the Senior Employment Program increased from \$2,930,000 in FY 78-79 to \$3,427,200 in FY 79-80, the potentially unexpended balance of \$196,862 in FY 79-80 funds compared with \$539,939 in FY 78-79 represents an improvement of 64% in reversion values. During the fiscal year in question (1978-79), several local agencies handling Title V funds experienced difficulties which affected the expenditure of funds. One in particular, GLACCA in Los Angeles County was involved in a federal court case which resulted in the impounding of \$219,736 in FY 78-79 Title V funds. Thus, it was not possible to redirect this money to another contractor.

The Department has alerted the senior employment contractors via Technical Assistance Memorandum TA-5-81-1 that each should develop a work plan for utilization of all obligated Title V funds by June 30, 1981. Those agencies have provided the requested information. A demonstration program will be funded with redirected Title V funds prior to June 30, 1981 to show the merits of a senior job bank in Orange County. The Department is doing everything possible to assure that no Title V funds will be returned to the federal treasury from the funds in FY 80-81.

LACK OF REGULAR MONITORING OF EXPENDITURES

The Department's new accounting system which was effective March 1, 1981 will provide sufficient detail for decision making.

The Department has not yet adjusted its records to reflect reimbursements because it is not wholly satisfied that no alternative exists for reversion of the funds. Its accounting officer, with considerable experience in handling federal funds (with another state agency), is pursuing alternatives with staff of the Federal Office of Human Services.

Regardless of the outcome of those efforts, however, at least \$332,697 will be returned to the Federal Government from unexpended balances to reflect unallowable expenditures unrecoverable from former grantees no longer existing as entities. Three entities, North Bay Senior Planning Council, Area Technical Assistance Agency on Aging (ATAAP) and Superior California Senior Services, Inc., are chargeable with the funds to be reverted. The remainder in unexpended funds is still potentially recoverable at this time.

In order to properly account for funds promised to agencies but not yet awarded, the Department will institute a practice of making "memo entries" to reflect promises until the funds are actually obligated.

EFFECTS OF UNDERUTILIZATION OF FUNDS

The Department has been very concerned about the impact of underutilization of funds. However, we are also concerned about increasing service capacity to a level which cannot be maintained on a continuing basis by the anticipated federal funding. The report indicates that 1.2 million meals could have been served with the \$2.5 million of unused nutrition funds accumulated since 1973-74. The 1.2 million meals could not have been continued on an ongoing basis. In fact, the increased service capacity would have only magnified the impact of inflation and the anticipated reductions in service levels which may be necessary next year.

The Department has tried to deal with the problem of accrued funds in the past few years by a controlled increase in service capacity and by awarding one-time-only funds for repairs, renovation and establishment of central kitchens. This use of one-time-only funds enabled many projects to improve efficiency and increase the number of meals served.

RECOMMENDATIONS (UNDERUTILIZATION OF FUNDS)

1. The Department will redirect funds to the extent allowable under State and Federal Regulations in order to maximize the use of all federal funds.
2. The Department has obtained temporary assistance from other departments to close all outstanding grants and has established internal procedures including overtime authorization to ensure that accounting records will reflect that activity.

3. By June 1, 1981 the Department's accounting system will reflect funds to be returned to the Federal Government, accounts receivable and funds promised but not yet contracted (by memo entries).
4. The Department is assuring that accounting staff have adequate skills and supervision in the following manner:
 - a. The supervisor of accounting staff has substantial accounting experience,
 - b. All accounting personnel have been or currently are enrolled in training classes supporting the state accounting system and
 - c. Recruitment for the Department's Fiscal Officer position is emphasizing both accounting and budgeting training and experience.
5. Effective April 1, 1981 all Requests for Funds will include a mandatory comparison and followup of budget vs. actual expenditures. In addition, fiscal and program analysts will monitor expenditures regularly in on-site visits.
6. The Department will report to the Legislature by June 19, 1981 on implementation of these recommendations.

INADEQUATE ASSISTANCE TO LOCAL AGENCIES

The following are some of the many measures taken to ensure that Area Agencies are operating properly:

- A Title III Program Manual for Area Agencies has been developed which includes Federal Regulations, Older Californian Act requirements and Department policy. This manual which will be distributed by May 1, 1981 will supersede previous manuals and policy memos.
- A new Area Plan format has been developed and implemented; this format is designed to assist Area Agencies on Aging in improving their operation and to alert the Department of Aging on the effectiveness of the Area Agencies on Aging.
- Department of Aging program, fiscal, and nutrition staff are assigned to each Area Agency on Aging to provide ongoing technical assistance; staff with special expertise are also available to assist as needed. In order to assure consistency in policy interpretation, the Department is requiring that such interpretations be cleared with Management and Executive Staff.
- A Technical Assistance Plan is developed in conjunction with each Area Agency on Aging and used to ensure that corrective action or needed assistance is accomplished.

- Extensive training to improve skills and knowledge is made available to Area Agency on Aging staff.
- A sanction process has been developed and utilized to facilitate corrective action as indicated.

REQUESTS FOR FUNDS NOT PROCESSED PROMPTLY

Based on a survey of Claims Schedules on April 16, 1981 covering 24 Requests for Funds, processing time within the Department is now down to 7.5 days. (1.91 days from receipt to accounting and 5.6 days from accounting to Controller.)

Note should be taken, however, that projects have been advised in writing to prepare and submit Requests for Funds at least 21 days prior to the start of the month for which payment is requested to prevent any possibility of delayed receipt of funds. Unfortunately, many projects submit requests during the month to be covered by the request. For example, in the 24 request sample referenced above, 15 were submitted during the month covered by the request, with the remaining nine submitting on a more timely basis.

The Department shall institute the practice of processing and forwarding claims received to the Controller prior to the first of the month so that they can be paid promptly after the first of the month. (The Controller will not pay claims prior to the first of the month for which they are due.)

INSUFFICIENT TECHNICAL ASSISTANCE AND POLICY GUIDELINES

The Department has just completed five months of intensive work to produce the Title III Program Manual for Area Agencies on Aging. This manual incorporates Federal Regulations, Older Californians Act requirements and all departmental policies (formerly published in Policy Memoranda). The manual contains both program and fiscal policy. The manual will be released before May 1, 1981 and the Transmittal Letter will indicate that all previous manuals and Policy Memoranda are now obsolete.

All future policy will be issued as manual revisions. Policy Memoranda will be used only for time-limited policy, e.g., annual allocation plan, annual Area Plan guidelines.

The Department utilizes a Policy Development Process which invites input on issues from the aging network and advocacy groups. In addition, the Department has a Policy Development Task Force made up of Area Agency directors and departmental management staff.

Under the recent reorganization of the Department, technical assistance is available to Area Agencies as needed from a variety of specialty areas. The Community Program Services Branch maintains major responsibility for identifying technical assistance needs, developing a

Technical Assistance Plan for each Area Agency and arranging for specialized assistance from the Financial Management Branch, Nutrition Branch, State/Federal Coordination (programmatic areas such as housing, transportation, health, social services, etc.), Planning Branch or any other unit in the Department. All field visits, including technical assistance visits are documented in the project file with a field trip report.

The Department is now operating on Management by Objective. Every organizational unit has developed objectives for the next 18 months which were approved by the Director. A work plan for each objective is currently being developed which will serve as the basis for monitoring accomplishment of objectives. Unit objectives include development of individual development plans for staff to assure that staff have the expertise to provide high quality technical assistance to Area Agencies.

In addition to the Program Manual described above, we are developing an Administrative Manual which will contain all internal operating policy and procedures.

LACK OF NEEDS ASSESSMENT POLICY

The Department has initiated activities to assess the needs of the elderly, specifically, the needs assessment policy which is currently in the developmental process. A Discussion Paper, CDA-80-5, is available and has been circulated to all Area Agencies on Aging and others in the network requesting their input into this process.

The Department has also developed an Interim Needs Assessment Policy for the Area Agencies on Aging that requires the Area Agencies on Aging to incorporate, as a minimum, the results of their public hearings and the Area or Regional State House Conference on Aging in the analysis of the needs in their annual submission of their three-year Area Plan.

In the State Plan for FY 1981-83 and in the Guidance for Area Plans for Fiscal Years 1981-83 issued December 8, 1980, the Department has indicated its policy on targeting resources to those persons with multiple economic and social needs. In these same documents, Area Agencies were encouraged to fund only those programs which are not or could not be funded by other agencies.

The Federal Regulations require that the Department "periodically consult with all the Area Agencies in the State to -- (1) Assess the needs of older persons in the State; --" (45 CFR 1321.29) and "(8) Evaluate the need for social and nutritional services in the State, and determine the extent to which other public and private programs meet the needs;" (45 CFR 1321.45). Neither these regulations nor the comparable ones for Area Agencies (45 CFR 1321.77(b)(4) and 1321.93(b)) specify the process or methodology which must be used to evaluate needs. Regional Administration on Aging offices vary in their interpretation regarding the appropriate methodology. Some regional offices emphasize public hearings while others (including Region IX) stress needs assessment surveys.

The Department has not and probably will not require the use of surveys in its needs assessment policy because surveys are expensive and we question whether the benefits from a survey at either the state or local levels would justify the reduction in service levels which would be necessary to provide the funding. A statewide survey in the State of Washington sampling only 3,000 seniors cost \$150,000 to \$200,000 and a recent survey in PSA 4 cost \$60,000. Neither the Department nor the Area Agencies have funds which are not already committed to meet federal requirements or are in great demand to meet service needs for seniors.

The Department evaluates needs by a combination of analysis of Area Plans, secondary data sources and public hearings on the State Plan. Most Area Agencies use a combination of secondary data, survey information and public hearings. The analysis of Area Plans indicates a consistency in priority of needs in the areas of income maintenance, housing, transportation, protection against crime. Nutrition services receive lower priority since these services are more readily available.

In regard to updating demographic data, we are in the process of renewing an agreement with TEAL Data Center to update the data and graphically display the relationship of the variables of SSI and age 60+ with location of nutrition sites.

The report indicates that elderly receiving services are not always those needing such services and cites the remark of one nutrition project director that 90% of the seniors attending the site are not economically needy. The Federal Regulations (CFR 1321.109) establish service priorities for "older persons with greatest economic or social need." (Emphasis added.) However, this same section of the regulations also specifies "Service providers may not use a means test." It is not possible to identify individuals who are economically needy or socially needy without some form of individual assessment.

ASSESSMENTS NOT THOROUGH OR TIMELY

The report indicates that 11 of the 33 Area Agencies were not assessed as of March 1, 1981. All of the 11 will be assessed by June 30, 1981. It should be noted that the Department uses a variety of methods in addition to assessment to ensure compliance with State and Federal Regulations including monitoring of Area Plans, technical assistance and frequent telephone calls and correspondence with Area Agencies.

AUDITS (EXTERNAL) ARE INSUFFICIENT AND AUDIT EXCEPTIONS NOT RESOLVED

The Department concurs that past audits have not been frequent enough and have not provided sufficient information. As noted in the report we have tried a number of different ways to resolve this problem with unsatisfactory results. We now have established an Office of External Audits within the Department with sufficient staff to audit all Area Agencies every two years. This office has developed and is presently

utilizing audit packages covering financial, compliance, economy and efficiency. All 33 Area Agencies will be audited by September 1982. An audit schedule will be published by May 15, 1981.

SANCTIONS ARE INCONSISTENTLY ADMINISTERED

The purpose of the Department's sanction policy is to obtain compliance with contract terms when all other measures, such as providing technical assistance, have been tried without result. Thus, the initiation of a request for sanction and executive approval to apply a sanction are dependent in some instances upon a judgement as to whether the project is attempting to take corrective action. In some situations, such as submission of the Area Plan by the due date, the staff person working with the Area Agency may be aware of extenuating circumstances and be willing to provide additional time. In other situations, such as the submission of reports, the time limits are more critical since the Department's report to the Administration on Aging by a specific date is dependent on prompt receipt of project reports.

The application of sanctions is not automatic in all noncompliance issues since corrective action takes time in some instances. We have used sanctions primarily to obtain compliance with the reporting process.

It should be noted that the problems identified in the Auditor General's report, Table 5, had to do with improperly completing the Sanction Process Report form rather than with the administration of the sanction policy. The term "insufficient documentation" implies that there may not have been sufficient reason to apply a sanction. In discussing this with the reviewer it was determined that this term actually meant that when the sanction was cancelled a notation was not made on the sanction form that the corrective action had been taken.

As pointed out in the report, we have instituted procedures designed to eliminate many of the problems we have had in the sanction process. We intend to monitor the process and documentation on the sanction report form closely.

RECOMMENDATIONS

1. Departmental staff assigned to reviewing and processing Requests for Funds have been specifically instructed to strictly observe the three-day cycle for review and the six-day cycle for processing.

Reviews of Requests for Funds are performed by Financial Management Branch analysts who verify calculations, compare requests with expenditure plans (budgets), and notify program analysts of significant variances.

Accounting staff review requests for consistency of amounts with balances remaining on accounts, and process claims on claim schedules to the State Controller.

2. Accounting staff have been reinstructed that no otherwise payable claim should go unscheduled beyond six working days.
3. A manual for local agency use has been completed and is in printing. Desk manuals for accounting positions were developed by the Accounting Systems Task Force and are being utilized.
4. Roles and responsibilities of staff providing technical assistance are being clarified in the Management by Objective process.
5. A needs assessment policy recommendation is being developed that emphasizes the use of a variety of methods, including secondary data; flexibility in the choice of these different methods depending on the stage of development of the Area Agency on Aging; and, the need to minimize the costs of conducting a needs assessment while maximizing the output of information.
6. The Department's Guidelines for completing the Area Plans require that Area Agencies present the highlights of the latest needs assessment processes conducted by the Area Agency on Aging. The Guidelines also require that the Area Agency on Aging include a discussion of how and when the particular needs assessment methods were completed; what the results were; provide an interpretive commentary on those results; and describe emerging conditions and trends. A prioritized ranking of identified needs based on the results of the various needs assessment processes should follow the discussion. The Area Agency on Aging must then compare the services available to seniors (the "supply" of services) with the prioritized list of needs (the "demand" for those services). The Area Agency on Aging can then specify the nature and scope of the remaining or unmet needs (the excess of "demand" over "supply"). These needs should be ranked in order of their priority for being met during the planning period.

The Department then describes these prioritized needs expressed in Area Agency on Aging plans as conditions and major issues facing older persons in California and incorporates this information in the Public Information Document, which is discussed at Public Hearings.

The Department addresses these needs in the State Plan, whose format is prescribed by the Commissioner of the Administration on Aging. The format for FY 1981-1983 planning period requires that the Department address these needs through advocacy, services development and systems development. For example, the highest ranked needs described in the FY 1981-82 Area Agency on Aging Plans suggested that transportation, housing, employment and income maintenance were major issues in California during this planning year.

The FY 1982 Annual Revision to the State Plan will incorporate the above information and the generalized information from the State House Conference on Aging to be held April 27, 28 and 29, 1981. The Department plans to develop workshops to encourage local input into the development of the State Plan that will address any changes in prioritized needs and/or major State Plan objectives.

7. All 33 Area Agencies will be assessed by June 30, 1981 and priority will be given to reporting results on a timely basis.
8. An audit program covering compliance, financial, economy and efficiency is currently being carried out. All Area Agencies will be audited by September 1982 and every two years thereafter.
9. Audit resolution procedures with appropriate deadlines are being developed and will be in effect by June 1, 1981.
10. The Department has reviewed its sanction procedures and instituted changes designed to correct past problems, including assurance that telephone contact will be made with the Area Agency prior to sanction. We will carefully monitor the sanction form to assure that it is properly completed.
11. The Department will report to the Legislature by June 19, 1981 on implementation of the recommendations.

INCOMPATIBILITY OF M.I.S. AND AREA PLAN

Both the Area Plan Format and the automated Management Information System utilize the same data elements, although definitions of activities are much more precise for the M.I.S. However, both systems are compatible by way of cross-overs (currently being prepared in cooperation with Fresno Area Agency on Aging) and will be made more consistent in subsequent plan years.

TRAINING ACTIVITIES

The Department is currently developing an internal training policy which will be completed by April 30, 1981. This policy will be incorporated into the departmental Administrative Manual. Training programs for staff will be strengthened based on individual development plans developed by managers. From these plans a "core curriculum" will be determined.

COMPENDIUM OF AUDIT FINDINGS (APPENDIX B)

The Department has taken action on the following recommendations:

- 1.A.1. The California Department of Aging does not clearly define its departmental goals.

Action Taken: The Department has taken action and developed the following mission/goals on February 17, 1981:

Mission

The mission of the California Department of Aging is to assure that services are delivered to the older population in the community in order to improve the lives of older persons.

Goals

To carry out the mission, the Department will work to secure and maintain maximum independence and dignity in a home environment for older individuals capable of self-care with appropriate supportive services; remove individual and social barriers to economic and personal independence for older individuals; and provide a continuum of care for the vulnerable elderly.

Role

The Department will assume an active leadership role by:

- Establishing, sustaining and building the capacity of Area Agencies on Aging.
- Providing active guidance to state and local agencies in the development of programs and systems.
- Directly assisting grantees (primarily Area Agencies on Aging) to identify and resolve management and program problems.
- Concentrating efforts on programs/services for older persons with multiple economic and social needs, ensuring that the vulnerable elderly receive priority.
- Influencing attitudes toward greater understanding and responsiveness to older persons.
- Funding (or supplementing) services concentrated on those programs which are not or could not be funded by other sources (public and private).

- Controlling for grantee compliance with regulations.
- Encouraging appropriate use of resources at both the state and local level through advocacy and coordination.
- Directing resources to advocacy and coordination rather than direct services when doing so results in a greater benefit to seniors.

1.A.2. The Department has not delineated the responsibilities of the planning staff. Additionally, staff were not assigned to carry out the Department's planning function from December 1978 to March 1979.

Action Taken: The Planning Unit has defined roles and responsibilities as follows:

The Planning Unit has three main roles:

- a. System Builder. The Planning Unit's major role at this time is to develop a comprehensive planning system based on the concept of program development that integrates Area Plans, the State Plans, other state and federal plans, the California Department of Aging Management Plan, the California Department of Aging Long-Range Plan, California Department of Aging Priorities Study, and Older Californians Act, into a system that effectively represents the resolution of the needs of the elderly. The development and utilization of this planning system presupposes grassroots input into all the individual plans mentioned above.
- b. Catalyst. The Planning Unit acts as a catalyst to bring about substantive information for the Long-Range Plan, the State Plan, and the Management Plan. This role reinforces the basic principle that planning is a part of every manager's and staff person's responsibilities. This style of planning frees up the limited staff of the Planning unit to synthesize the information and to develop the various plans.
- c. Responsibilities. As described in the Department's organizational chart, the Planning Unit's responsibilities include being Prime Mover on the development and maintenance of various plans listed in the chart.

The Planning Unit has a generic responsibility for the collection and analysis of planning data. A data analyst position which has key data collection responsibility was recently filled. The Planning/Coordination Branch Manager represents the Department on the California Interdepartmental Committee on Aging Ad Hoc Committee on Data. However, as the chart describes, no one entity has been given the Prime Mover responsibility for the collection and analyses of data.

- 11.A.1. The Department has undergone numerous reorganizations and has given little attention to management's control over staff.

Action Taken: Effective March 1, 1981 the Department restructured its organization. This restructuring required goals and objectives and functional statements for each division and operating unit of the Department.

- 11.B.1. There is no documented approval of the State Agency accounting process by the State of California. The Department remains one of the few state agencies not part of the state accounting process.

Action Taken: The Department has developed a manual accounting system on March 1, 1981. We have submitted this accounting system to Department of Finance for review. After its review on March 12, 1981, the Department of Finance commented that ". . . The accounting system as planned and being implemented appears to contain the accounting practices and procedures for good state accounting system."

". . . However, the real test is meeting the year-end closing requirements for financial statements."

- 11.B.2. Fiscal management responsibilities of the Department are diffused throughout all operating units.

Action Taken: Effective March 1, 1981 the Department restructured its organization and incorporated all financial management activities under a single division. This restructuring consolidated administrative (internal) and programmatic (external) fiscal operations.

- 11.B.3. The Department fiscal policies for subgrantee operations are more restrictive than federal financial management policies.

Action Taken: The Department has developed a Title III Program Manual. This manual incorporates the federal financial management policies provided under 45 CFR, subpart 74, as appropriate. This manual will be distributed by May 1, 1981.

- 11.B.4. The Department does not have procedures to ensure the proper separation of duties in fiscal control matters.

Action Taken: Our new accounting system which was developed on March 1, 1981 ensures separation of duties as prescribed in the State Administrative Manual (SAM) Section 8080. Effectiveness of carrying out our planned segregation of duties, however, is subject to maintaining a full accounting staff.

- 11.B.5. The Department does not always ensure that administrative costs claimed for federal reimbursements are acceptable.

Action Taken: We formed the Internal Audit Unit on March 1, 1981. This unit includes in its audit program an annual review for accuracy and reliability of mandated state and federal reports prepared by the Fiscal Management Unit of the Department. Our internal audit is scheduled to perform a financial and compliance audit of the Department on June 15, 1981.

- 11.B.6. There is no documented effort (by the Department) to reconcile state agency central account with state, Health and Human Services, and Administration on Aging cash and reporting system.

Action Taken: Effective with the February 28, 1981 balances, we formally reconciled our accounting records (i.e., allotment expenditure ledgers and general ledger account balances) with the State Controller's account balances.

- 11.B.7. The Department does not ensure the recovery of unused funds from terminated projects.

Action Taken: The Department has developed, by inclusion in the new manual, procedures for recovering funds owed to the Department by projects. These procedures apply to:

- a. Projects currently supported all or in part by monies administered by the Department, and
- b. Projects no longer supported in any way by monies administered by the Department.

- 11.C.2. Contract closeout funds are not available for expenditure until well after contract termination date.

Action Taken: Effective April 1, 1981, the Department adopted a modified reimbursement system. Under this system funds advanced will be compared with the report of expenditure submitted by the Area Agencies. Subsequent request for funds will then be adjusted by the amount of excess funds requested. This system will permit the Department to recoup or reduce unspent funds held by the Area Agencies during, rather than after, the contract year.

- 11.C.4. The Department does not evaluate the effectiveness of operations or the appropriateness of data received from local agencies when granting or regranteeing funds.

Action Taken: The Department has documented the performance of the Area Agencies in the Technical Assistance Plan and assessment reports. The effectiveness of the local programs are addressed in the Area Plans for FY '81-83. Renewal decisions are based in part on reviews of all three of the preceding documents.

- 11.D.1. The Department does not have adequate written policies and procedures for internal, or grantee, use.

Action Taken: The Department has developed a new Title III Program Manual which will be the single and ongoing source of program policy and procedure. An Administrative Manual is being developed to cover internal policy and procedures. After the new Program Manual is in place, the Department's effort will be focused on developing other written policy which the Department needs but does not presently have in the new manual or on eliminating existing policy which is too restrictive.

- 11.A.1. Audits of local agencies are insufficient and inadequate.

Action Taken: The Department formed an Audit Office in February 1980. In the past, the Department relied on the audits conducted by independent accountants. Our Audit Office (now known as Office of External Audits) has developed and are presently performing financial and compliance, and economy and efficiency audits.

All the 33 Area Agencies are scheduled for audits commencing April 1981 through September 1982.

- 111.A.5. The Department does not employ a consistent assessment/evaluation system that is effective in monitoring program.

Action Taken: The Department has adopted, by inclusion in the Administrative Manual in 1978, a uniform assessment operating and reporting procedures. All 33 Area Agencies will have been assessed by June 30, 1981.

- 111.A.6. The Department is not always receiving reports on grantee operations.

Action Taken: Departmental procedures adopted in July 1980 will be included in the new Administrative Manual. These procedures established strict guidelines for logging in of all reports received from the field, establishing cutoff dates and initiation of the sanction process for those local entities failing to submit their reports in a timely fashion.

- 11.C.1. The Department has failed to utilize federal Older Americans Act funds in a timely manner.

Action Taken: Underexpenditures by projects over the first several years since 1973 resulted in an accumulation of funds which have been available for use in addition to the annual federal appropriations for our social service and nutrition programs. Therefore, since 1976 we have allocated and awarded program funds each year at a level higher than each year's federal appropriation.

The current Area Plan Year (ending 6-30-81) will see the end of this pattern; inflation and the consequence of overawarding will result in approximately \$9 million less in funds being available next year as opposed to this year. The attached Exhibit displays in detail the computation of this shortfall, but, in general, the situation is as follows:

\$60,909,829	Current Year Allocation of federal and state funds
+ 7,309,180	12% inflation
<u>68,219,009</u>	Budget Year funding equivalent to Current Year allocation
-54,665,128	Projected federal and state fund allocation for FY 81/82
- 2,098,895	Remaining unexpended Prior Year Balances ^{1/}
<u>- 2,165,490</u>	Projected current year underexpenditures as of 6-30-81
\$ 9,289,496	Projected funding deficit in FY 81/82

^{1/}Unexpended balances recovered from closeouts of grants ending earlier than 1980.

- 11.C.3. The allocation of monies is not being revised or adjusted in order to better meet the actual needs of the elderly for meals and services.

Action Taken: The Department has established a baseline allocation formula and all future allocation to Planning and Service Areas will be done through the intra-funding formula (IFF) as required by federal regulations to assure a fair distribution of all monies available. The Department working with Area Agency Directors is now looking at current allocations to determine what amount can be used in the last quarter of the federal fiscal year and what amount can be redirected to Area Agencies that require additional monies to maintain the current levels of services. In addition, with our newly developed accounting system and getting our contract closeout up to date in the next three weeks, we will be able to determine what monies will be available for redirection at a date early enough to impact the areas of need.

- 111.A.3. Reviews/evaluations performed by the Department do not cover all significant agency operation aspects and such reviews/evaluations are not performed in a timely manner.

Action Taken: The Department uses Assessment Guide (revised August 1980) to ensure assessment of programmatic, fiscal and administrative aspect of each Area Agency. Assessments on all 33 Area Agencies will have been completed by June 30, 1981. The Area Agencies are responsible for assessing the nutrition and supportive projects.

- 1.B.1. The Department does not ensure that local needs are being adequately assessed.

Action Taken: The Department is currently in the process of developing a set of methods and a process that will:

- a. Utilize uniform primary and secondary data from area plans as a base for a statement of older Californians' needs in the State Plan.
- b. Develop a State Plan process that will encourage early input from older Californians prior to public hearings in the form of workshops throughout the State for each annual revision.

The State and Federal Coordination Division within the Department was formed in February 1981 to facilitate coordination of services provided to seniors by other state and federal agencies.

- 11.A.2. Information received by Department management is not always adequate or timely.

Action Taken: As of March 1981, the Fiscal Management Branch of the Department prepares a Monthly Budget Report. This report contains information such as allotments, expenditures, unliquidated obligations and unencumbered balances. This report is distributed to the divisions and operating units of the Department before the end of the following month. After the installation of the new bookkeeping machine by May or June 1981, we will be able to prepare and distribute the report in a more timely manner.

- 11.C.5. The Department has not required local agencies to use budgetary information as a means of controlling projects for the elderly.

Action Taken: The Department will require the Area Agencies to use budgetary information as a means of controlling its projects for the elderly. The Department will address this requirement through the assessment process and technical assistance efforts.

- 11.E.2. The Department does not always identify technical assistance needs and/or provide adequate technical assistance to its grantees.

Action Taken: The Department is utilizing a formalized technical assistance plan for each Area Agency. This plan is used as a managerial tool to identify on a monthly basis project problems, technical assistance provided and corrective action taken by projects.

The Department concurs with the following recommendations:

- 1.A.3. The (budgetary and) planning system in place is expenditure oriented, not output oriented.

Action Taken: As part of our continuing effort to implement an Automated Management Information System (MIS), we developed standard definitions and unit of service measurements for activities provided to older Californians. These definitions and unit measurements will provide information which is compatible

for program reporting on the Area Plan. All Area Agencies are scheduled to use these standardized activities and unit measurements for the contract year beginning July 1, 1981. (Reference CDA-PM-T3-81-7).

Over the next several years, after all the Area Agencies have adopted and used these standardized activities and unit measurements, our planning and budget documents will become closely oriented to output measures.

- 11.D.2. The Department lacks budgetary control procedures to provide for the proper handling of budget revisions.

Action Taken: We have reviewed our procedure in these areas and have developed appropriate corrective action.

- 111.A.2. The Department has not documented and/or performed all required evaluations/reviews of local agencies.

Action Taken: We have reviewed our present record keeping system and have developed appropriate records control procedures for our central filing system to assure that assessment reports are included in project files for all Area Agencies.

- 111.A.4. The Department does not always follow up its reviews/evaluations to determine whether problems uncovered during a review have been corrected.

Action Taken: The Department's new technical assistance plan (TAP) will not only identify project problems on a monthly basis, but will also inform the managers which problems have not been corrected. As part of the technical assistance plan process, we will include the procedure of obtaining of commitment and time schedule from the projects for the implementation of corrective actions.

- 111.B.1. The financial and program performance reporting systems from the Department to Administration on Aging are inadequate.

Action Taken: Our new Financial Management Branch is responsible for monitoring the Area Agency financial activities. This responsibility includes developing an analysis of the Area Agency planned and actual expenditure. The analysis will be provided to the Analyst in the Community Program Services Branch who is assigned to the area. As part of the monitoring process, the Community Program Services Analyst will in turn compare the planned and actual performance of the Area Agency. Where discrepancies occur, it will be the responsibility of the Analyst to identify the underlying causes of the problem and provide for technical assistance to the Area Agency as appropriate to resolve the problem.

We are developing detailed procedures to ensure adequacy of mandated federal reports (financial and program performance) developed based on the above-mentioned generalized procedures.

- 11.E.1. The Department does not have a means of monitoring to ensure that the proper nonfederal share of program funding is expended from state and public sources.

Action Taken: The Department's new Financial Management Branch is responsible for monitoring compliance with nonfederal fund share requirement. Appropriate procedures are being developed to ensure that the proper nonfederal share of program funding is expended from state and public sources.

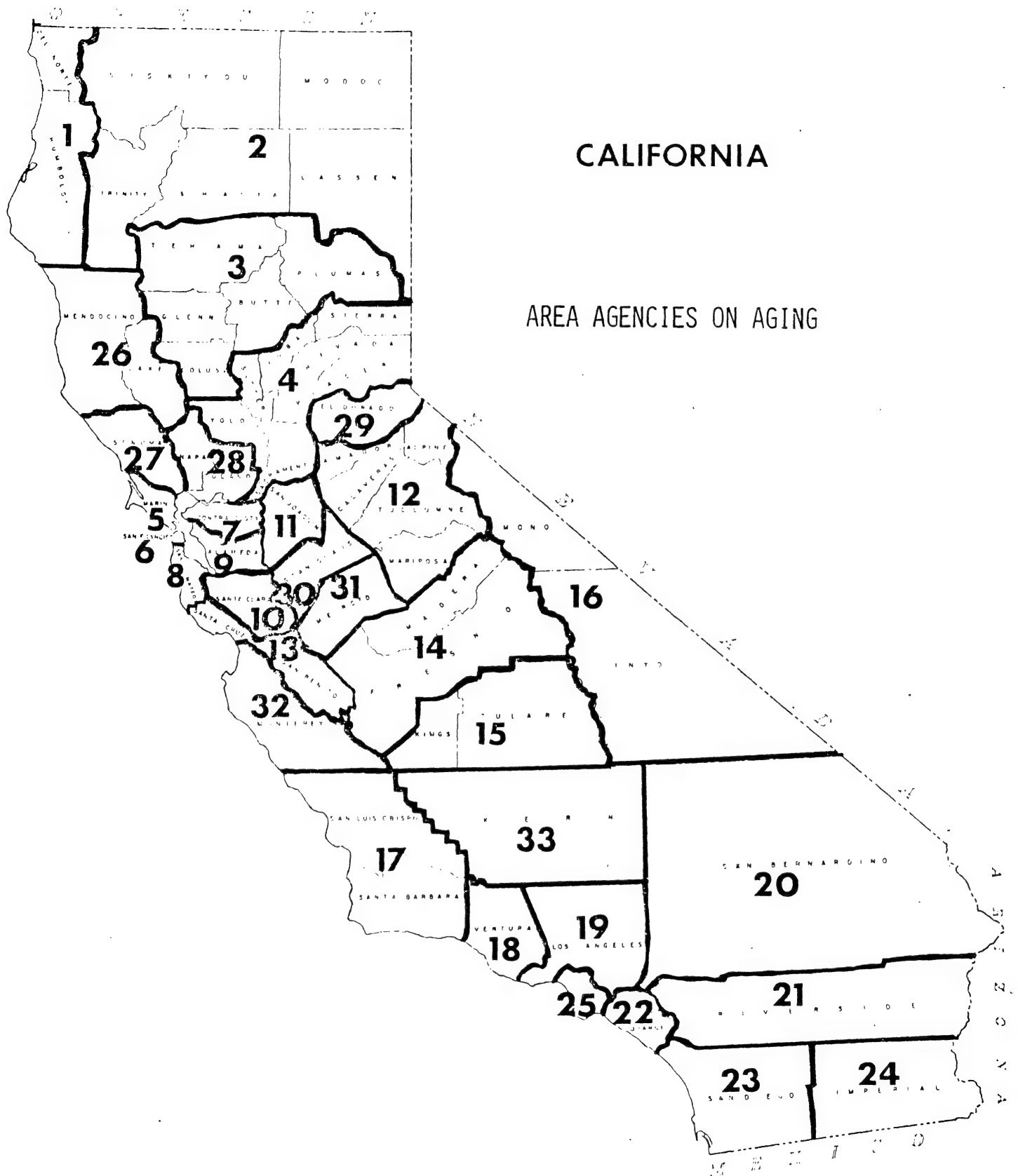
We appreciate the opportunity of responding to this audit report. We are aggressively moving to correct past problems and many of the deficiencies have already been corrected.

Most sincerely,

A handwritten signature in cursive script, appearing to read "Janet J. Levy".

JANET J. LEVY
Director

cc: Mario G. Obledo, Secretary
Health & Welfare Agency



AREA AGENCIES ON AGING

<u>AAA #</u>	<u>County/Counties</u>	<u>AAA #</u>	<u>County/Counties/City</u>
1	Humboldt, Del Norte	17	Santa Barbara San Luis Obispo
2	Trinity, Shasta, Siskiyou, Modoc, Lassen	18	Ventura
3	Tehama, Glenn, Colusa, Butte, Plumas	19	Los Angeles County (excluding City of Los Angeles, see #25)
4	Yolo, Sacramento, Yuba, Sutter, Sierra, Nevada, Placer	20	San Bernardino
5	Marin	21	Riverside
6	San Francisco	22	Orange
7	Contra Costa	23	San Diego
8	San Mateo	24	Imperial
9	Alameda	25	City of Los Angeles
10	Santa Clara	26	Lake, Mendocino
11	San Joaquin	27	Sonoma
12	Amador, Tuolumne, Alpine, Calaveras, Mariposa	28	Napa, Solano
13	Santa Cruz, San Benito	29	El Dorado
14	Fresno, Madera	30	Stanislaus
15	Kings, Tulare	31	Merced
16	Inyo, Mono	32	Monterey
		33	Kern

COMPENDIUM OF AUDIT FINDINGS ADDRESSING
THE CALIFORNIA DEPARTMENT OF AGING

AUDIT YEAR									
1974	1975	1976	1977	1978	1979	1980			
		FIN				HHS			
			HHS			HHS			
						HHS			
	AG	FIN		AG		HHS			
						HHS			
						HHS			
FIN						HHS			

I. Planning Process

A. Planning

1. The California Department of Aging (CDA) does not clearly define its departmental goals.
2. The department has not delineated the responsibilities of the planning staff. Additionally, staff were not assigned to carry out CDA's planning function from December 1978 to March 1979.
3. The planning system in place is expenditure oriented, not output (services) oriented.

B. Needs assessment

1. The department does not ensure that local needs are being adequately assessed.

II. Implementation and Operations

A. Program administration

1. The department has undergone numerous reorganizations and has given little attention to management's control over staff.
2. Information received by CDA management is not always adequate or timely.

B. Fiscal administration

1. There is no documented approval of the department's accounting process by the State of California.
2. Fiscal management responsibilities of the CDA are diffused throughout all operating units.
3. CDA fiscal policies for subgrantee operations are more restrictive than Federal financial management policies.
4. The department does not have procedures to ensure the proper separation of duties in fiscal control matters.

FIN - Department of Finance

HHS - Health and Human Services (includes Administration on Aging audits)

AG - Auditor General

	1974	1975	1976	1977	1978	1979	1980
				HHS			HHS
		AG		HHS	AG		FIN/ AG
					FIN	HHS	
				HHS			FIN
						FIN	
	FIN						
	FIN	AG					
	FIN						
	FIN						HHS

5. The department does not always ensure that administrative costs claimed for Federal reimbursement are acceptable.
6. There is no documented effort (by the CDA) to reconcile state agency central accounts with state, Health and Human Services, and Administration on Aging cash and reporting systems.
7. The department does not ensure the recovery of unused funds from terminated projects.

Program funding

1. The department has failed to utilize federal Older Americans Act funds in a timely manner.

1. The department has failed to utilize federal Older Americans Act funds in a timely manner.
2. Contract closeout funds are not available for expenditure until well after contract termination dates.
3. The allocation of monies is not being revised or adjusted in order to better meet the actual needs of the elderly for meals and services.
4. The department does not evaluate the effectiveness of operations or the appropriateness of data received from local agencies when granting or regranting funds.
5. The department has not required local agencies to use budgetary information as a means of controlling projects for the elderly.

Policies and procedures

1. The department does not have adequate written policies and procedures for internal, or grantee, use.

2. The department lacks budgetary control procedures to provide for the proper handling of budget revisions.

Technical assistance

1. The department does not have a means of monitoring to ensure that the proper non-federal share of program funding is expended from state and public sources.

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FIN - Department of Finance
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AG - Auditor General

AUDIT YEAR									
1974	1975	1976	1977	1978	1979	1980			
FIN	AG			FIN					
	AG	FIN		FIN	HHS/ AG				
			HHS						
			HHS	FIN	HHS				
					HHS				
FIN				AG					
						FIN			
									HHS

2. The department does not always identify technical assistance needs and/or provide adequate technical assistance to its grantees.

III. Control Process

A. Program monitoring and evaluation

1. Audits of local agencies are insufficient and inadequate.
2. The department has not documented and/or performed all required evaluations/reviews of local agencies.
3. Reviews/evaluations performed by the CDA do not cover all significant local agency operation aspects and such reviews/evaluations are not performed in a timely manner.
4. The department does not always follow-up its reviews/evaluations to determine whether problems uncovered during a review have been corrected.
5. The department does not employ a consistent assessment/evaluation system that is effective in monitoring programs.
6. The department is not always receiving reports on grantee operations.

B. Management reporting

1. The financial and program performance reporting systems from CDA to Administration on Aging are inadequate.

FIN - Department of Finance
HHS - Health and Human Services (includes Administration on Aging audits)
AG - Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps